



The Institute of Chartered Accountants in England and Wales

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# ***ICAEW KW REG Workbook\_1***

**Workbook**

**For exams in 2021**

Financial Management

The Institute of Chartered Accountants in England and Wales

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Questions within the Workbook should be treated as preparation questions, providing you with a firm foundation before you attempt the exam-standard questions. The exam-standard questions are found in the Question Bank.

# *Welcome to ICAEW*

I'd like to personally welcome you to ICAEW.

In a fast-changing and volatile world, the role of the accountancy profession has never been more important.

As an ICAEW Chartered Accountant, you will make decisions that will define the future of global business.

By choosing our world-leading chartered accountancy qualification, the ACA, you will acquire exceptional knowledge and skills - with technology and ethics at the heart of your learning. A focus on capabilities such as judgement and scepticism will enable you to make the right decisions in diverse and often complex environments.

You will be equipped to flourish and to lead in areas that are transforming the business landscape. This includes embracing technological change and harnessing digital disruption, to help our profession deliver greater value. It also includes putting climate change and sustainability at the heart of business strategy. We will equip you to be adaptable and agile in your work and all within a set of values fundamental to trust and transparency, which will set you apart from others.

Joining over 184,500 ICAEW Chartered Accountants and students worldwide, you are now part of a global community. This unique network of talented and diverse professionals work in the public interest to build economies that are sustainable, accountable and fair.

You are also joining a community of 1.8m chartered accountants and students as part of Chartered Accountants Worldwide - a family of leading institutes, of which we are a founder member.

ICAEW will support you through your studies and throughout your career: this is the start of a lifetime relationship, and we will be with you every step of the way to ensure you are ready to face the challenges of the global economy. Visit page [v](#) to review the key resources available as you study.

With our training, guidance and support, you will join our members in realising your career ambitions, developing world-leading insights and maintaining a competitive edge.

We will create a world of strong economies, together.

I wish you the best of luck with your studies.

Michael Izza

Chief Executive

ICAEW

# Financial Management

If you are studying this exam as part of the ACA qualification go to [icaew.com/examresources](https://icaew.com/examresources) or if you are studying the ICAEW CFAB qualification go to [icaew.com/cfabstudents](https://icaew.com/cfabstudents).

## Module aim

Financial Management enables students to recommend relevant options for financing a business, recognise and manage financial risks and make appropriate investment decisions.

On completion of this module, students will be able to:

- identify capital requirements of businesses, assess financing options and recommend relevant methods of financing;
- identify the financial risks facing a business and the principal methods of managing those risks; and
- apply appropriate investment appraisal techniques taking into account other factors affecting investment decisions.

## Method of assessment

The Financial Management module exam is 2.5 hours long. The exam consists of three questions. Managing financial risk will be assessed as a discrete topic. The other two questions will assess financing options and investment decisions and valuation either as discrete or integrated topics.

## Specification grid

This grid shows the relative weightings of subjects within this module and should guide the relative study time spent on each. Over time the marks available in the assessment will equate to the weightings below, while slight variations may occur in individual assessments to enable suitably rigorous questions to be set.

	Weighting (%)
1 Financing options	35
2 Managing financial risk	30
3 Investment decisions and valuation	35

# Permitted texts

At the Professional and Advanced Levels there are specific texts that you are permitted to use during your exam. All information for these texts is available on [icaew.com/permitteditexts](https://icaew.com/permitteditexts).

Professional level exams	Permitted text
Audit and Assurance	✓
Financial Accounting and Reporting	✓
Tax Compliance	✓
Business Strategy and Technology	x
Financial Management	x
Business Planning	No restrictions

Advanced Level exams	
Corporate Reporting	No restrictions
Strategic Business Management	No restrictions
Case Study	No restrictions

The exams which have no restrictions include the following:

- Business Planning: Banking;
- Business Planning: Insurance;
- Business Planning: Taxation;
- Corporate Reporting;
- Strategic Business Management; and
- Case Study.

This information, as well as what to expect and what is and is not permitted in each exam is available in the Instructions to Candidates. You will be sent the instructions with your exam admission details. They can also be viewed on our website at [icaew.com/exams](https://icaew.com/exams).

# Key resources

Whether you're studying the ACA qualification with an employer, at university, independently (self-studying), or as part of an apprenticeship, we provide a wide range of resources and services to help you in your studies.

Take a look at the online exam resources available to you on [icaew.com/examresources](https://icaew.com/examresources) and discover more resources and services at [icaew.com/studentbenefits](https://icaew.com/studentbenefits).

## Syllabus, skills development and technical knowledge grids

This syllabus presents the learning outcomes for each exam and should be read in conjunction with the relevant technical knowledge grids and, where applicable, the skills development grids.

## Exam support

A variety of exam resources and support have been developed on each exam to help you on your journey to exam success. This includes exam guidance, sample exams, hints and tips from examiners and tutors, on-demand webinars and articles.

## Past exams and mark plans

Use past exams to practise answering questions. The mark plans will help you check your answers. The past exams and mark plans are included in your Question Bank and have been updated to reflect the 2021 legislation and syllabus.

## Errata sheets

These documents will correct any omissions within the learning materials once they have been published. You should refer to them when studying.

## Exam software

It is vital that you are familiar with the exam software before you take your exam. Access a variety of resources, including the practice software and sample exams at [icaew.com/studentresources](https://icaew.com/studentresources).

## Student support team

Our student support team is here to help and advise you, so do not hesitate to get in touch. Email [studentsupport@icaew.com](mailto:studentsupport@icaew.com) or call +44 (0)1908 248 250. If you are browsing our website, look out for the live help boxes. You will be able to speak directly to an adviser. Mia, our ChatBot, is also on hand to answer your queries.

## Online student community

The online student community is the place where you can post your questions and share your study tips. Join the conversation at [icaew.com/studentcommunity](https://icaew.com/studentcommunity).

## ICAEW Quarterly and Student Insights

As an ACA student, you will also receive a copy of our member magazine, *Quarterly*. Read more at [icaew.com/insights](https://icaew.com/insights).

You'll also be able to access our practical and topical student content on our dedicated online student hub, Student Insights.

You'll find new-look features, interviews and guides giving you fresh insights, innovative ideas and an inside look at the lives and careers of our ICAEW students and members. No matter what stage you're at in your journey with us, you'll find content to suit you.

## Tuition

The ICAEW Partner in Learning scheme recognises tuition providers who comply with our core principles of quality course delivery. If you are not receiving structured tuition and are interested in doing so, take a look at ICAEW recognised Partner in Learning tuition providers in your area at [icaew.com/dashboard](https://icaew.com/dashboard).

## **CABA**

It can be tough juggling your studies with work, planning for the future and finding time to unwind. CABA are an independent charity that supports the well-being of the chartered accountant community. So, if you need support at home or at work, CABA is there for you. They provide information, advice and lifelong support to ACA students across the world face-to-face, over the phone and online. All their services are completely free and strictly confidential. Find out more at [caba.org.uk](http://caba.org.uk).

## **ICAEW Business and Finance Professional (BFP)**

ICAEW Business and Finance Professional (BFP) is an internationally recognised designation and professional status. It demonstrates your business knowledge, your commitment to professionalism and that you meet the standards of a membership organisation. Once you have completed the ICAEW CFAB qualification or the ACA Certificate Level, you are eligible to apply towards gaining BFP status. Start your application at [icaew.com/becomeabfp](http://icaew.com/becomeabfp).



# Skills within the ACA

Professional skills are essential to accountancy and your development of them is embedded throughout the ACA qualification.

The level of competency required in each of the professional skills areas to pass each module exam increases as ACA trainees progress upwards through each Level of the ACA qualification. The skills progression embedded throughout the ACA qualification ensures ACA trainees develop the knowledge and professional skills necessary to successfully operate in the modern workplace and which are expected by today's forward-thinking employers.

The following professional skills areas are present throughout the ACA qualification.

Skill area	Overall objective
<b>Assimilating and using information</b>	Understand a business or accounting situation, prioritise by determining key drivers, issues and requirements and identify any relevant information.
<b>Structuring problems and solutions</b>	Structure information from various sources into suitable formats for analysis and provide creative and pragmatic solutions in a business environment.
<b>Applying judgement</b>	Apply professional scepticism and critical thinking to identify faults, gaps, inconsistencies and interactions from a range of relevant information sources and relate issues to a business environment.
<b>Concluding, recommending and communicating</b>	Apply technical knowledge, skills and experience to support reasoning and conclusion and formulate opinions, advice, plans, solutions, options and reservations based on valid evidence and communicate clearly in a manner suitable for the recipient.

The following provides further detail on the professional skills that you will develop in this particular module. To see the full skills development grids, please go to [icaew.com/examresources](https://icaew.com/examresources).

## Assimilating and using information

### Understand the situation and the requirements

- Demonstrate understanding of the business context
- Recognise new and complex ideas within a scenario
- Identify the needs of customers and clients
- Explain different stakeholder perspectives and interests
- Identify risks within a scenario
- Identify elements of uncertainty within a scenario
- Identify ethical issues including public interest and sustainability issues within a scenario

### Identify and use relevant information

- Interpret information provided in various formats
- Evaluate the relevance of information provided
- Use multiple information sources
- Filter information provided to identify critical facts

### Identify and prioritise key issues and stay on task

- Identify business and financial issues from a scenario
- Prioritise key issues
- Work effectively within time constraints
- Operate to a brief in a given scenario

### How skills are assessed: students may be required to:

- absorb and understand both structured and unstructured material; and

- give recommendations based on their understanding and interpretation of the information provided, supported by explanation of the reasoning behind and implications of their recommendations.

## **Structuring problems and solutions**

### **Structure data**

- Structure information from various sources into suitable formats for analysis
- Identify any information gaps
- Frame questions to clarify information
- Use a range of data types and sources to inform analysis and decision making
- Structure and analyse financial and non-financial data to enhance understanding of business issues and their underlying causes
- Present analysis in accordance with instructions and criteria

### **Develop solutions**

- Identify and apply relevant technical knowledge and skills to analyse a specific problem
- Use structured information to identify evidence-based solutions
- Identify creative and pragmatic solutions in a business environment
- Identify opportunities to add value
- Identify and anticipate problems that may result from a decision
- Identify a range of possible solutions based on analysis
- Identify ethical dimensions of possible solutions
- Select appropriate courses of action using an ethical framework
- Identify the solution which is the best fit with acceptance criteria and objectives
- Define objectives and acceptance criteria for solutions

### **How skills are assessed: students may be required to:**

- assimilate significant amounts of information, to analyse it (including quantitative analysis) in a way that demonstrates relevant technical knowledge and to draw and support appropriate conclusions.

## **Applying judgement**

### **Apply professional scepticism and critical thinking**

- Recognise bias and varying quality in data and evidence
- Identify assumptions or faults in arguments
- Identify gaps in evidence
- Identify inconsistencies and contradictory information
- Assess interaction of information from different sources
- Exercise ethical judgement

### **Relate issues to the environment**

- Appreciate when more expert help is required
- Identify related issues in scenarios
- Assess different stakeholder perspectives when evaluating options
- Retain an overview of the business issue or scenario
- Appraise corporate responsibility and sustainability issues
- Appraise the effects of alternative future scenarios
- Appraise ethical, public interest and regulatory issues

### **How skills are assessed: students may be required to:**

- make sense of relatively large volumes of data, making judgments on the relevance of data for use in subsequent calculations and discussions;
- reflect on their calculations and the methodology employed and to identify and discuss the implications of calculations; and

- make and justify judgements based on earlier calculations.

### **Concluding, recommending and communicating**

#### **Conclusions**

- Apply technical knowledge to support reasoning and conclusions
- Apply professional experience and evidence to support reasoning
- Use valid and different technical skills to formulate opinions, advice, plans, solutions, options and reservations

#### **Recommendations**

- Present recommendations in accordance with instructions and defined criteria
- Make recommendations in situations where risks and uncertainty exist
- Formulate opinions, advice, recommendations, plans, solutions, options and reservations based on valid evidence
- Make evidence-based recommendations which can be justified by reference to supporting data and other information
- Develop recommendations which combine different technical skills in a practical situation

#### **Communication**

- Present a basic or routine memorandum or briefing note in writing in a clear and concise style
- Present analysis and recommendations in accordance with instructions
- Communicate clearly to a specialist or non-specialist audience in a manner suitable for the recipient
- Prepare the advice, report, or notes required in a clear and concise style

#### **How skills are assessed: students may be required to:**

- recommend suitable courses of action in a given situation (financing decisions, dividend decisions, investment appraisal decisions); and
- incorporate advice within a 'business report' format, addressing both the strengths and weaknesses of any recommendations and/or reasons for the rejection of alternatives.

To help you develop your ability to demonstrate competency in each professional skills area, each chapter of this Workbook includes up to four Professional Skills Guidance points.

Each Professional Skills Guidance point focuses on one of the four ACA Professional Skills areas and explains how to demonstrate a particular aspect of that professional skill relevant to the topic being studied. You are advised to refer back to the Professional Skills Guidance points while revisiting specific topics and during question practice.



# Chapter 1



## *Reintroduction to audit and assurance*

### **Introduction**

Learning outcomes

Syllabus links

Examination context

Chapter study guidance

### **Learning topics**

- 1 Assurance defined
- 2 Audit defined
- 3 Audit and other assurance compared

Summary

Self-test questions

Further question practice

Knowledge diagnostic

Question practice

Technical reference

Answers to Interactive questions

Answers to Self-test questions



# Introduction

## Learning outcomes

- Revise the concept of assurance from your Assurance exam
- Revise the concept of audit from your Assurance exam
- Understand the specific benefits of an audit

## Syllabus links

This chapter revises key concepts from your Assurance exam.

## Examination context

This chapter is revision of what you have previously been examined on in your Assurance exam. You will need an understanding of what assurance services are – audit in particular – that will be brought forward from your lower level exam to answer any questions at this level.

## Chapter study guidance

Use this schedule and your study timetable to plan the dates on which you will complete your study of Chapter 1 Concept of and need for assurance.

Topic	Practical significance	Study approach	Exam approach	Self-test Questions
1	In the recent past, the services provided by accounting practices in the UK were mainly restricted to accounts preparation, audit and tax.  If you are training in practice, you are likely to spend some training time working in an assurance department and being involved in work on audits or other assurance engagements. If you work in industry, you might be involved from the other side.	This chapter is in the main revision of material that was covered in Assurance. You should read over this section and attempt the activity at the end.	This chapter is revision of what you have previously been examined on in your Assurance exam. You will need an understanding of what assurance services are – audit in particular – that will be brought forward from your lower level exam to answer any questions at this level.	1, 2, 3
2	Formerly, audits were almost the only assurance	You should read over this section carefully.	The material in this section may be examined in a	4, 5

Topic	Practical significance	Study approach	Exam approach	Self-test Questions
	engagements in existence and nearly all companies required an audit. Consequently, most accountants worked on audits at some point in their careers.		short form question.	
3	<p>More recently there have been developments which have tended to split the 'traditional' view that assurance firms provide audit and other services in one 'package'.</p> <p>Factors such as:</p> <ul style="list-style-type: none"> <li>• The restriction on which companies are legally required to have audits;</li> <li>• Pressure to maintain auditor independence;</li> <li>and</li> <li>• The growth in other types of assurance service being requested from, and offered by, accounting practices.</li> </ul>	You should read over this section and attempt the activities.	The material in this section may be examined in a short form question.	6

Once you have worked through this guidance, you will be ready to attempt the further question practice included at the end of this chapter.

# 1 Assurance defined

## Section overview

- An assurance engagement is one in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria
- Key elements are: three party involvement, subject matter, suitable criteria, sufficient appropriate evidence, written report
- Different levels of assurance may be given in assurance assignments: reasonable and limited
- An audit is an example of an assurance engagement giving reasonable assurance



## Definition

**Assurance engagement:** An engagement in which a practitioner aims to obtain sufficient appropriate audit evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).

Assurance engagements include primarily audits but also other services such as reports on internal control and review of a business plan.

In recent years businesses world-wide have been publishing sustainability and corporate responsibility reports, in an attempt to demonstrate accountability for the impact of their activities on society and the environment. Such reports may be the subject of assurance engagements that provide limited assurance to management on reported elements such as key performance indicators, adherence to voluntary codes etc.

## 1.1 The elements

Any assurance engagement needs:

- a responsible party
- a practitioner
- a user of the report
- a subject matter
- criteria
- sufficient appropriate evidence to support the conclusion
- a written report containing a conclusion

The engagement will be governed by its terms of engagement (found in an engagement letter).

The engagement will need to be:

- planned
- performed
- concluded upon
- reported on

## 1.2 Levels of assurance

The International Federation of Accountants (IFAC) recognises two types of assurance engagement:

- Reasonable assurance engagements, which result in a positive expression of opinion and where the level of assurance given is deemed to be high
- Limited assurance engagements, which result in negative assurance and where the level of assurance given is deemed to be moderate

Engagements could be either type, and this would need to be specified in the terms of engagement.

So for a report on the effectiveness of management's system of internal control, it might be agreed that the report should read as follows:



- “In our opinion management has operated an effective system of internal control” – a positive form of opinion deriving from a reasonable assurance engagement; or
- “Nothing has come to our attention that indicates material internal control weakness” – a negative form of assurance deriving from a limited assurance engagement.

No report on an assurance engagement can ever provide absolute assurance, because of the nature of the evidence available.

Assurance type	Assurance level	Opinion/conclusion	Example
Reasonable	High	Positive	Audit of financial information
Limited	Moderate	Negative	Review of financial information

This issue is connected to that of the expectations gap between users and auditors, which you studied in Assurance. What do you think about the issue? Is the expectations gap a question of users simply misunderstanding the audit, or is audit not fit for purpose?

### 1.3 Benefits of assurance

A key feature of assurance services is that they are provided by independent professionals who therefore give an objective, unbiased opinion. They give the following benefits to users:

- Enhances the credibility of the information being reported on
- Reduces the risk of management bias, error or even fraud in the information being reported on
- Draws the attention of the user to any deficiencies in the information being reported on

Assurance services also give added credibility to the wider share market:

- They ensure that high quality, reliable information circulates in the market
- They give investors added faith in the market
- They improve the reputation of organisations trading in the market



#### Context example: Content example: Assurance engagement

Predator plc, a large listed company, is considering taking over Target Limited, a small, family owned company.

Predator has asked Talbot and Co, chartered accountants, to carry out due diligence in relation to this prospective purchase. They want them to review the financial statements of the last three years and ensure that they were prepared under generally accepted accounting practice in the UK. They also want them to review the budgets for the coming twelve months and ensure that they are reasonably and internally consistent.

You can see the elements of the assurance service as these:

- Practitioner: Talbot and Co
- Responsible party: Target Ltd management
- Users: Predator plc management
- Subject matter: Financial statements/budgets
- Criteria: UK GAAP/reasonable and internally consistent

Talbot and Co will plan and carry out work to obtain sufficient appropriate evidence to support their assurance opinion, which will be given in a written report.

The benefits of this service to Predator plc are that:

- they are given assurance that the financial statements are in line with UK GAAP and therefore are understandable and comparable with other companies they might be considering for takeover.
  - they are given assurance that the budgets are reasonable and internally consistent and therefore can be trusted as an indicator of the company's future operating ability.
  - they can therefore make an informed decision about whether to buy Target and for how much.
- 



### Interactive question 1: Benefits of assurance

During the night of 7 June 20X3 strong gales caused the brick chimney of the factory to crash through the roof of Hancock Ltd's assembly area. Production was severely disrupted for a period of two months.

In addition to claiming from its insurers for the cost of repairing the premises and for the equipment and inventories destroyed in the accident, the company is also including a considerable claim under the loss of profits provision of its policy. The directors have prepared detailed calculations of the loss of profit and have requested the company's auditors to review this claim and provide an assurance report which they will submit with it to the insurers.

#### Requirement

What advantages would the directors expect to gain from having this report?

See **Answer** at the end of this chapter.

---

## 2 Audit defined

### Section overview

- An audit is a key example of an assurance service in the UK, where many companies are required to have audits by law
- An audit is an exercise designed to enable an auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework
- An auditor usually expresses a conclusion as to whether the financial statements "give a true and fair view"
- The 'audit threshold' is the legal qualification for a company to have an audit
- The benefits of audit are much the same as the benefit of assurance services generally. Users of financial statements subject to an audit are given assurance that the financial statements meet legal requirements as well as accounting ones



### Definition

**Audit of financial statements:** According to ISA (UK) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)*, the overall objectives of the auditor in conducting an **audit of financial statements** are as follows:

- To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
  - To report on the financial statements and communicate as required by the ISAs (UK), in accordance with the auditor's findings.
-



## Context example: Content example: How audit is an assurance engagement

The key criteria of an assurance engagement can be seen in an audit as follows:

- (a) Three party involvement
  - The shareholders (users)
  - The board of directors (the responsible party)
  - The audit firm (the practitioner)
- (b) Subject matter
  - The financial statements
- (c) Relevant criteria
  - Law and accounting standards

(d) Evidence

The auditor is required by international standards on auditing (ISAs) to obtain sufficient and appropriate evidence to support the audit opinion.

(e) Written report in suitable form

As required by ISA (UK) 700 *Forming an Opinion and Reporting on Financial Statements*, the auditor's report is a written report issued in a prescribed form.

## 2.1 The audit threshold

For many years all companies registered in the UK were required to be audited. In the early 1990s, certain very small companies were granted exemption from audit and this exemption was later extended to all small companies fulfilling certain criteria as defined by the Companies Act 2006.

Small companies are exempt from mandatory audit if they can satisfy two out of three of the following criteria:

- The company has no more than 50 employees
- The company's turnover does not exceed £10.2 million
- The company's gross assets total does not exceed £5.1 million

Since January 2016, most subsidiary companies have been exempt from audit if certain conditions are met; one of the main conditions being that the parent company must guarantee the liabilities of the subsidiary.

Companies that take advantage of the audit exemption must include a statement to that effect in the financial statements.

Even if a company comes under the audit threshold, an audit must be carried out if:

- the articles of association require one
- shareholders who own at least 10% of the shares ask for one
- the company is a non-dormant public company
- the company is involved in the insurance or banking markets

## 2.2 The benefits of being audited

The case for audit for those companies where it is not required by statute usually revolves around the protection of those who, apart from management, nevertheless have a financial interest in the company, for example:

- Banks and other providers of finance
- Minority shareholders

The rationale for doing away with the need for audit for small companies was made by the UK Department of Trade and Industry (as it then was). A White Paper from the DTI made the very valid

point that if the purpose of the audit was to protect shareholders who are not involved with managing the business, and the vast majority of smaller companies were owner managed, what purpose did the audit serve for those companies?

Many would argue (and the auditors of smaller companies have found this to be true) that, in many cases, the audit is valued by management because of the following:

- They value having their business scrutinised by another set of professional eyes
- It provides additional assurance to third parties such as taxation authorities concerning the reliability of the financial statements
- A growing business will one day require an audit
- Audit may have subsidiary benefits, such as the auditors recommending improvements in company systems.

There are, however, some disadvantages relating to having an audit from the entity’s point of view. These drawbacks include the following:

- Cost
- Staff time required in providing information, etc
- Disruption to client’s business
- Time spent on the initial appointment process
- Dealing with confidentiality
- Expectations gap, particularly surrounding fraud detection
- Inherent limitations of audit

As a result of these drawbacks, it is very rare for a company below the audit threshold to have a full audit just for its own sake.

### 3 *Audit and other assurance compared*

**Section overview**

- The earlier sections of this chapter looked at the similarities between audit and other examples of assurance
- All assurance assignments follow the same basic outline with the key difference being the level of assurance given in the final opinion
- This has practical implications at various stages of the assignment

The specific differences relating to agreement of terms and acceptance of appointment are covered in Chapters 6 and 14. The differences in the detailed content of reports are covered in Chapters 13 and 14.

#### 3.1 Nature of work undertaken

In the Assurance exam you studied in detail the sources of audit evidence and the types of procedure that are generally performed on an audit. For other types of assurance assignment, where lower levels of assurance are being provided, the amount and type of evidence required will be less.

The following table compares the main audit procedures as outlined in ISA (UK) 500 with those that would be carried out in an engagement to review financial statements following the guidance of International Standard on Review Engagements (ISRE) 2400, and with those that would be carried out in examining prospective financial information under International Standard on Assurance Engagements (ISAE) 3400:

ISA (UK) 500	ISRE 2400	ISAE 3400
<ul style="list-style-type: none"><li>• Inspection of documentation</li></ul>	<ul style="list-style-type: none"><li>• Inquiry, eg, into the accounting principles in</li></ul>	<ul style="list-style-type: none"><li>• Assessment of assumptions</li></ul>

ISA (UK) 500	ISRE 2400	ISAE 3400
<ul style="list-style-type: none"><li>• Inspection of assets</li><li>• Observation</li><li>• External confirmation</li><li>• Recalculation</li><li>• Repperformance</li><li>• Analytical procedures</li><li>• Inquiry</li></ul>	<p>place, the accounting systems in use, and concerning material assertions</p> <ul style="list-style-type: none"><li>• Analytical procedures, eg, comparison with prior periods, comparison with anticipated results, and analysis of expected patterns in elements of the financial statements</li></ul>	<ul style="list-style-type: none"><li>• Recomputation</li><li>• Written representations</li></ul>

From the above it should be clear that the scope of work differs considerably between ISRE 2400 and ISAE 3400. Under ISRE 2400 the work will be based on historical information that can be tested and, in some instances, verified after the fact. A review under ISAE 3400, on the other hand, will be looking at prospective information. This means that the work will revolve around scrutinising management assumptions and will rely on written representations rather than obtaining evidence by direct testing.

For reviews of interim and historical financial information performed by the entity’s own independent auditor, specific guidance is given in ISRE 2410.

3.2 Quality of evidence

It is clear that far less evidence is obtained during a review assignment, and the evidence is generally less reliable as some of the most reliable sources, such as third-party confirmations and evidence generated by the assurance provider, are not required.

In some cases, the nature and quality of the evidence that can be obtained is further affected by the nature of the subject matter of the assignment. If the firm is appointed to carry out a review of forecast figures to be presented to potential lenders then again analytical procedures and inquiry will be employed but the reliability of the evidence will be even lower due to the uncertainties involved. The figures being reviewed relate to transactions and events, some or all of which have not yet occurred at the time the opinion is given. The information is based on subjective estimates.

3.3 Reporting

In both of these cases the assurance provider can give only a low level of assurance and in the case of prospective information, such as the forecast figures, may include additional warnings to readers of the assurance opinion about the nature of the information and the assurance that can be given.

Chapter 14 looks at the content of such reports in more detail.



Interactive question 2: Review and audit compared

The directors of Connelly Ltd are concerned about the reliability and usefulness of the monthly financial management information that they receive.

As a result, the company’s auditors have been engaged to review the system and the information it generates, and to report their conclusions.

Requirement

Contrast this assignment with the statutory audit of the company’s financial statements with regard to the scope of the assignment and to the report issued.

See **Answer** at the end of this chapter.



### Interactive question 3: Benefits of an audit

Acrylics Ltd was established in June 20X0 to produce acrylic products which are used as display units in the retail industry. The shares are owned equally by two executive and two non-executive directors.

The company's revenue increased steadily over the first two years of trading. The results for the first year of trading indicated an operating profit margin of 15%, and the management accounts for the second year of trading indicate that this has increased to 18%. The directors are currently negotiating a contract worth £600,000 to supply a major retailer which has over 100 outlets throughout the UK. The company will require an increased overdraft facility to fulfil the order.

The finance director of Acrylics Ltd has prepared a business plan for submission to the company's bankers in support of a request for a larger overdraft facility. The plan includes details of the company's products, management, markets, method of operation and financial information. The financial information includes profit and cash flow forecasts for the six months ending 31 December 20X2, together with details of the assumptions on which the forecasts are based and the accounting policies used in compiling the profit forecast. The company's bankers require this financial information to be reviewed and reported on by independent accountants.

Although the company's revenue was below the threshold for a statutory audit for its first year of trading, the company was required by its bankers to have an audit of its financial statements for the year ended 30 June 20X1. Your firm conducted this audit in accordance with auditing standards and issued an unqualified report.

#### Requirements

- 3.1 Describe the benefits, in addition to continuance of its overdraft facility, to the company and its directors and shareholders from having an audit of its annual financial statements.
- 3.2 Explain how and why the level of assurance provided by a report on profit and cash flow forecasts differs from the level of assurance provided by an auditor's report on annual financial statements.

See **Answer** at the end of this chapter.

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### Interactive question 4: Examination of cash flow forecasts

Your firm has been engaged to examine the cash flow forecasts prepared by the management of a company whose principal activity is the installation of electrical systems for customers in the retail, construction and industrial sectors in the UK.

All contracts are fixed-price. Customers pay 95% of the contract on completion of the work and withhold 5% of the contract price for up to six months from the date of completion in case remedial work is required. The materials and components used are bought from UK suppliers who require payment within 30 days of the invoice date.

As a result of a significant fall in demand for its services the company has closed two of its regional depots and put both premises up for sale. It has also made 25% of its employees redundant.

#### Requirements

- 4.1 Identify the specific matters you would consider when examining the assumptions underlying the receipts and payments included in the company's cash flow forecasts.
- 4.2 Explain the level of assurance that will be provided in your assurance report as a result of your examination.

See **Answer** at the end of this chapter.

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## *Summary*

!! Error resolving referred content !!

*Further question practice*



# Knowledge diagnostic

Before you move on to question practice, complete the following knowledge diagnostic and check you are able to confirm you possess the following essential learning from this chapter. If not, you are advised to revisit the relevant learning from the topic indicated.

Confirm your learning	Yes/No
(a) Can you explain the levels of assurance that may be given? (Topic 1)	
(a) Can you explain the benefits of audit? (Topic 2)	
(a) What are the principal differences between an audit and a review engagement in respect of the nature of the work undertaken? (Topic 3)	

## Question practice

Aim to complete all self-test questions at the end of this chapter. The following self-test questions are particularly helpful to further topic understanding and guide skills application before you proceed to the next chapter.

Question	Question Name	Learning benefit from attempting this question	Yes/No
Q1		This question tests an area that is basic background knowledge for your examination.	
Q2		This question tests an area that is basic background knowledge for your examination.	
Q6		This question provides a sterner test of your knowledge in this area.	

Once you have completed these self-test questions, it is beneficial to attempt the following questions from the Question Bank for this module. These questions have been selected to introduce exam style scenarios to help you improve knowledge application and professional skills development before you start the next chapter.

Question	Question Name	Learning benefit from attempting this question	Yes/No
Q11	University of Downtown	This question is a key past exam question on this chapter	
Q52	Bow, Euston, Oxford, Strand	This question is a key past exam question on this chapter	
Q54	Gidget Ltd	This question is a key past exam question on this chapter	

Once you have attempted these questions, you can continue your studies by moving onto the next chapter, Responsibilities. ■

## *Technical reference*

### **1 Assurance defined**

FRC Glossary of Terms – Ethics and Auditing

### **2 Audit defined**






ISA (UK) 200.11

### **3 Audit and other assurance compared**

N/A

## Self-test questions

Answer the following questions.

- Define an assurance engagement.
- Any assurance engagement requires which of the following elements?
  - A A user
  - B A responsible party
  - C A subject matter
  -  Criteria
-  Reasonable assurance engagement, a negative conclusion is drawn.
  - A True
  - B False
- An audit is a limited assurance engagement.
  - A True
  -  False
- Which of the following is not a potential benefit of having an audit?
  - A Management may value having their business scrutinised by a set of professional eyes
  -  Assurance may be given to parties other than management who have a financial interest in the company
  - C An audit is likely to be required in the near future by a growing company
  -  Fraud will be uncovered by the auditors

### 1 Treetops Ltd

Your firm acts as external auditor for Treetops Ltd, a company whose principal business activity is the manufacture and export of hammocks. Due to recent changes in the statutory audit exemption thresholds, Treetops Ltd is no longer required by law to have an audit of its financial statements for the year ended 28 February 20X5.

The directors of Treetops Ltd have asked you to set out the main advantages of the company continuing to have a statutory audit and also to provide them with examples of some of the other types of assurance work which your firm may be able to carry out for them.

The company's managing director has also requested a meeting with you. He has recently discovered that his purchase ledger clerk has diverted £10,000 of company funds into his own bank account. The managing director wants to know why this was not discovered during the course of your audit for the year ended 29 February 20X4. The company's retained profit for that year was £350,000.

#### Requirements

- 1.1 Briefly describe the advantages to the directors and shareholders of Treetops Ltd of continuing to have a full audit under the Companies Act 2006 when exempt from the statutory audit.
- 1.2 Provide examples of four other types of assurance engagement where the scope of the work is agreed between the assurance firm and the company. For each engagement identified, briefly set out the nature of the assurance given in the accompanying report and, where applicable, identify potential users of the report other than the company's management.

**Total: 12 marks**

Now go back to the Introduction and ensure that you have achieved the Learning outcomes listed for this chapter.

# Answers to Interactive questions

## Answer to Interactive question 1

Advantages of report regarding loss of profits

- Independent opinion from external source
- Enhanced credibility of compilation of claim
- Confirmation that data subjected to review and examination
- Comfort to insurers that risk of inflated claim reduced
- Could accelerate processing of claim

## Answer to Interactive question 2

Scope	
This assignment	Statutory audit
Agree between parties	In accordance with Companies Act 2006
Restricted to instructions	In accordance with audit regulations
	In accordance with ISAs (UK)

Report	
This assignment	Statutory audit
Addressed to board	Addressed to members
Format wholly discretionary	On true and fair view
Private report	Format prescribed
	Report in public domain

## Answer to Interactive question 3

3.1 Benefits, additional to continuance of overdraft facility, of having an audit:

- Shareholders who are not involved in the day-to-day management of the company (non-executives) will have assurance that their interests are protected (ie, company assets are not abused).
- Financial information is likely to be more reliable, resulting in more informed decisions.
- An audit improves a company's governance – management benefits from:
  - (a) Assurance that they are complying with their statutory responsibilities (including the prevention and detection of fraud, as the audit may act as a deterrent);
  - (b) By-products of the audit, such as the identification of weaknesses and recommendations for improvement; and
  - (c) Reducing risks and improving performance.
- An audit imposes financial discipline which is useful for growing companies.
- It may be easier to obtain credit, as suppliers and credit rating agencies regard the additional assurance provided by an audit important.

3.2 How and why the level of assurance provided by a report on profit and cash flow forecasts differs from the level of assurance provided by an auditor's report on annual financial statements.

- An audit conducted in accordance with auditing standards provides a high level of assurance which is reasonable but not absolute.
- The delay between the reporting date and the date of the auditor's report means that even items such as provisions/estimates can often be substantiated.
- A review of forecasts is only likely to provide a moderate level of assurance.
- This is because financial statements are based on historical information, and forecasts are based on assumptions which are subject to uncertainty.

#### **Answer to Interactive question 4**

- 4.1 The following matters should be considered when examining the reasonableness of the assumptions underlying the receipts and payments:

##### Receipts

Trading receipts reflect:

- Potential loss of business following the closure of the two depots
- 95% of the contract price is received on completion and 5% received six months later
- The fact that amounts due may not ultimately be paid

Receipt from sale of premises:

- Realistic proceeds from the sale of the two depots that reflect local property values

##### Payments

- Payments for components and raw materials reflect the 30-day credit terms
- PAYE, NIC and other taxes are paid on the due dates
- Redundancy payments are in accordance with legal/contractual obligations
- Ongoing wages reflect reduced workforce following the redundancies
- Any extra costs (eg, transportation costs) involved in servicing contracts from distant depots and a fall in overheads after the sale of the two depots are reflected
- Professional costs (eg, legal and selling agent) involved with the sale of depots are included

- 4.2 An examination of cash flow forecasts is likely to provide only a moderate level of assurance. This is because forecasts are based on assumptions which are subject to uncertainty.

## *Answers to Self-test questions*

- 2 An assurance engagement is one in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.
- 3 Correct answer(s):  
A A user  
B A responsible party  
C A subject matter  
D Criteria  
All of the elements listed are required, as well as a practitioner and sufficient and appropriate evidence, leading to a written expression of opinion.
- 4 Correct answer(s):  
B False  
A positive opinion is given in a reasonable assurance engagement.
- 5 Correct answer(s):  
B False  
It is a reasonable assurance engagement.
- 6 Correct answer(s):  
D Fraud will be uncovered by the auditors  
Although an audit may act as a deterrent to fraud, it does not certify that one has not occurred. We shall look at the responsibilities of auditors in relation to fraud in the next chapter

### **7 Treetops Ltd**

#### **7.1 Benefits of audit**

7.2

- The credibility of financial information would be enhanced
- Enhances the value of accounts for business valuation purposes in the event of a sale
- Authorities such as HM Revenue & Customs can have more faith in the figures
- Avoids the future cost of extra work by the auditor when audit exemption limits are exceeded
- Avoids a potential future qualification over the opening inventory figure
- Makes it easier to raise finance
- May act as a deterrent to fraud/management abusing assets/reduce risk of management bias
- More reliable information results in more informed decisions
- Provides management/shareholders with assurance that the financial statements are true and fair/prepared in accordance with accounting standards
- By-products of the audit such as identification of weaknesses and recommendations should reduce risk and improve performance (management letter)
- Imposes discipline on management and accounts staff if they know that the figures will be subject to third party scrutiny, and therefore encourages best practice

- Gives management comfort that they are complying with their professional responsibilities/the accounts comply with the Companies Act

### 7.3 **Four other types of assurance engagement**

#### **Fraud investigation**

7.4 The conclusion/assurance will be based on the extent of the work carried out.

The report will:

- (1) identify likely causes of fraud
- (2) attempt to quantify the level of fraud

Potential users would be:

- (1) potential buyers
- (2) investors
- (3) banks
- (4) internal or external auditors.

#### **Working capital reports/reports on inventory and trade receivables recoverability**

7.5 The report will state whether:

- (1) trade receivables are likely to be received
- (2) inventory can be sold profitably in the near future

Potential users would be:

- (1) potential buyers
- (2) investors
- (3) banks
- (4) internal or external auditors.

#### **Internal control reports**

Such a report would:

- (1) comment on the effectiveness of internal controls and highlight weaknesses
- (2) make suggestions for the improvement of controls.

Potential users would be:

- (1) regulatory bodies
- (2) shareholders
- (3) internal or external auditors

#### **Reports on business plans/cash flow forecasts**

7.6 The assurance given would be negative/limited/moderate, ie, "Nothing has come to our attention".

The report would state whether:

- (1) the business plan/forecasts have been prepared in line with stated assumptions;
- (2) nothing has come to light to indicate that the assumptions are not a reasonable basis for the plan;
- (3) the accounting policies used are consistent with the annual accounts; or
- (4) the plan is consistent with the past performance of the company.

Potential users would be:

- (1) bankers
- (2) other lenders
- (3) external auditors



# *Appendix*



# ***Tax Tables FA2020***

## **Syllabus area: Administration**

### **SUBMISSION DATES**

#### **Submission dates for 2020/21 personal self-assessment tax returns**

	Later of: 31 January 2022
<b>Return filed online</b>	3 months from the date of issue of return
	Later of: 31 October 2021
<b>Paper returns</b>	3 months from the date of issue of return

#### **Submission dates for corporation tax returns**

Must be filed by 12 months from the end of the period of account.

#### **Submission dates for PAYE information: Real Time Information**

<b>Information</b>	<b>Filing date</b>
Full Payment Submission (FPS)	On or before the day the employee is paid
P60 (to employees)	31 May following the tax year end
P11D	6 July following the tax year end

### **PAYMENT DATES**

#### **Payment dates for income tax**

<b>Payment</b>	<b>Filing date</b>
First interim payment <sup>(1)</sup>	31 January in the tax year
Second interim payment <sup>(1)</sup>	31 July following the tax year end
Balancing payment	31 January following the tax year end

(1) Interim payments are not required if the tax paid by assessment for the previous year was less than:

£1,000; or

20% of the total tax liability (income tax and Class 4)

#### **Payment dates for capital gains tax**

Capital gains tax is payable by 31 January following the tax year end.

#### **Payment dates for corporation tax**

	Nine months and one day after the end of an accounting period
Corporation tax	
Corporation tax by instalments – large companies	The 14 <sup>th</sup> day of months 7, 10, 13 and 16 counted from the start of a 12-month accounting period
Corporation tax by instalments – very large companies	The 14 <sup>th</sup> day of months 3, 6, 9 and 12 counted from the start of a 12-month accounting period

## Payment dates for VAT

	Due date
Electronic payment	7 calendar days after the last day of the month following the end of the return period
Direct debit payment	Collected automatically 3 working days after electronic payment due date

## MAIN PENALTY PROVISIONS

### PENALTIES FOR INCORRECT RETURNS

The penalties are a percentage of the potential lost revenue

Reason for penalty	Maximum penalty	Minimum penalty with unprompted disclosure	Minimum penalty with prompted disclosure
Careless action	30%	Nil	15%
Deliberate but not concealed action	70%	20%	35%
Deliberate and concealed action	100%	30%	50%

### PENALTIES FOR FAILURE TO NOTIFY

Failures to notify chargeability to tax, or liability to register for tax that leads to a loss of tax will result in a penalty. The penalties are a percentage of the potential lost revenue.

Reason for penalty	Maximum penalty	Minimum penalty with unprompted disclosure		Minimum penalty with prompted disclosure	
Deliberate and concealed action	100%	30%		50%	
Deliberate but not concealed action	70%	20%		35%	
		>12m	<12m	>12m	<12m
Any other case	30%	10%	Nil	20%	10%

## COMPANIES: PENALTIES

Offence	Maximum Penalty
Failure to notify chargeability within 12 months of end of accounting period	See above: penalties for failure to notify

### Corporation tax: penalties for late filing of a corporation tax return

Offence	Penalty <sup>(1)</sup>
Late return, up to 3 months late	£100 fixed penalty, or £500 for persistent failure
Return more than 3 months late	£200 fixed penalty, or £1,000 for persistent failure
Return filed more than 18 months but less than 24 months after end of return period	Tax geared penalty of 10% of tax unpaid 18 months after end of return period
Return filed more than 24 months after end of return period	Tax geared penalty of 20% of tax unpaid 18 months after end of return period

(1) The tax geared penalty is charged in addition to the fixed penalty but only one of each type of penalty is charged.

## INDIVIDUALS: PENALTIES

Offence	Maximum Penalty
Failure to notify chargeability by 5 October following tax year end	See above: penalties for failure to notify
Late payment of income tax or capital gains tax: <sup>(1)</sup>	
Unpaid 30 days after payment due date	5% of tax unpaid
Unpaid 6 months after payment due date	Further 5% of tax unpaid
Unpaid 12 months after payment due date	Further 5% of tax unpaid

(1) Late payment penalties do not apply to payments on account.

### Income tax and CGT: penalties for late filing of a self-assessment return

Offence	Maximum Penalty
Late return	Immediate £100 fixed penalty
Return more than 3 months late	Daily fixed penalties of up to £10 per day for maximum 90 days
Return more than 6 months but less than 12 months late	Further tax geared penalty of 5% of tax due (minimum £300)
	Further tax geared penalties apply (minimum £300):
	100% if deliberate and concealed <sup>(1)</sup>
	70% if deliberate but not concealed <sup>(1)</sup>
Return 12 months late	5% in all other cases

(1) These tax geared penalties are reduced for disclosure as per penalties for incorrect returns.

### PAYE: penalties for late returns/ submissions

Number of employees	Monthly penalty
1 to 9	£100
10 to 49	£200
50 to 249	£300
250 or more	£400

If the form is more than three months late, an additional penalty is due of 5% of the tax and NIC that should have been reported.

Additionally, there is a £300 penalty per late P11D return, with an extra £60 per day charged if the delay continues.

### PAYE: penalties for late payment

	No of late payments	% of tax unpaid <sup>(1)</sup>
	1st	nil
	2 <sup>nd</sup> , 3 <sup>rd</sup> & 4 <sup>th</sup>	1%
	5 <sup>th</sup> , 6 <sup>th</sup> & 7 <sup>th</sup>	2%
	8 <sup>th</sup> , 9 <sup>th</sup> & 10 <sup>th</sup>	3%
Penalties for late payment of in-year PAYE depend on the number of defaults in the tax year	11 <sup>th</sup> or more	4%
Where a penalty has been imposed and the tax remains unpaid at 6 months		5% <sup>(2)</sup>
Where a penalty has been imposed and the tax		5% <sup>(2)</sup>

remains unpaid at 12 months

(1) The percentage penalty is applied to the total amount that is late in the relevant tax month.

(2) The 6 month and the further 12 month penalties are in addition to the initial penalty for late payment.

### VAT: penalties

Offence	Maximum Penalty
Failure to notify liability for registration or change in nature of supplies by person exempted from registration	See above: penalties for failure to notify

### VAT: late payment or late filing - default surcharge

Default involving late payment of VAT in the surcharge period <sup>(1)</sup>	Surcharge as a percentage of the VAT outstanding at the due date
First	2% <sup>(2)</sup>
Second	5% <sup>(2)</sup>
Third	10% <sup>(3)</sup>
Fourth	15% <sup>(3)</sup>

(1) Default if late payment of VAT or filing of VAT return and surcharge liability notice issued, but default surcharge only applies on late payment.

(2) No surcharge if it would be less than £400.

(3) Minimum £30 payable.

### VAT errors

An error made on a VAT return can be corrected on the next return provided it was not deliberate and does not exceed the greater of:

- £10,000 (net under-declaration minus over-declaration); or
- 1% x net VAT turnover for return period (maximum £50,000)

Alternatively, a 'small' error which is not deliberate may be corrected via the submission of form VAT652. Errors which are not 'small' or errors which are deliberate should be notified to HMRC on form VAT652.

### RECORD KEEPING PENALTY

Offence	Maximum Penalty
Failure to keep and retain tax records	£3,000 per tax year / accounting period

### INCOME TAX RATES: 2020/21

	Rate	Taxable income band
<b>Main rates</b>		
Basic rate	20%	£1 - £37,500
Higher rate	40%	£37,501 - £150,000
Additional rate	45%	Over £150,000
<b>Savings rates</b>		
Starting rate for savings	0%	£1 - £5,000
Savings income nil rate	0%	First £1,000 or £500
Savings basic rate	20%	Otherwise chargeable at basic rate

	Rate	Taxable income band
Savings higher rate	40%	Otherwise chargeable at higher rate
Savings additional rate	45%	Otherwise chargeable at additional rate
<b>Dividends rates</b>		
Dividend nil rate	0%	First £2,000
Dividend ordinary rate	7.5%	Otherwise chargeable at basic rate
Dividend upper rate	32.5%	Otherwise chargeable at higher rate
Dividend additional rate	38.1%	Otherwise chargeable at additional rate
<b>Default rates</b>		
Default basic rate	20%	
Default higher rate	40%	
Default additional rate	45%	
<b>INCOME TAX RELIEFS</b>		<b>2020/21</b>
Personal allowance		£12,500

## CGT RATES

	2020/21
Gains falling within the remaining basic rate band	10%
Gains exceeding the basic rate band	20%

## CORPORATION TAX RATES

	FY 2020
Tax rate	19%
Augmented profits limit for corporation tax payment dates – large companies	£1,500,000
Augmented profits limit for corporation tax payment dates – very large companies	£20,000,000

## NATIONAL INSURANCE CONTRIBUTIONS

	2020/21		
NIC CLASS 1	Annual	Monthly	Weekly
Primary threshold (PT)	£9,500	£792	£183
Secondary threshold (ST)	£8,788	£732	£169
Upper earnings limit (UEL)	£50,000	£4,167	£962
Apprentice upper secondary threshold (AUST) for under 25s	£50,000	£4,167	£962
Upper secondary threshold (UST) for under 21s	£50,000	£4,167	£962

	2020/21		
	Annual	Monthly	Weekly
<b>NIC CLASS 1</b>			
Employment allowance (per year, per employer)	£4,000		
Class 1 Primary contributions on earnings between PT & UEL	12%		
Class 1 Primary contributions on earnings above UEL	2%		
Class 1 Secondary contributions on earnings above ST where employee aged 21 or over and not an apprentice under the age of 25	13.8%		
Class 1 Secondary contributions on earnings between ST & AUST for apprentices under the age of 25	0%		
Class 1 Secondary contributions on earnings above AUST for apprentices under the age of 25	13.8%		
Class 1 Secondary contributions on earnings between ST & UST for employees under the age of 21	0%		
Class 1 Secondary contributions on earnings above UST for employees under the age of 21	13.8%		
Class 1A contributions	13.8%		

	2020/21
<b>NIC CLASS 2</b>	
Normal rate	£3.05 pw
Small profits threshold	£6,475 pa
<b>NIC CLASS 4</b>	
Annual lower profits limit (LPL)	£9,500
Annual upper profits limit (UPL)	£50,000
Percentage rate between LPL & UPL	9%
Percentage rate above UPL	2%
<b>VAT</b>	
Standard rate of VAT	20%
Reduced rate of VAT	5%

## Syllabus Area: Income Tax & NIC

INCOME TAX RATES: 2020/21	Rate	Taxable income band
<b>Main rates</b>		
Basic rate	20%	£1 - £37,500
Higher rate	40%	£37,501 - £150,000
Additional rate	45%	Over £150,000
<b>Savings rates</b>		



<b>INCOME TAX RATES: 2020/21</b>	<b>Rate</b>	<b>Taxable income band</b>
Starting rate for savings	0%	£1 - £5,000
Savings income nil rate	0%	First £1,000 or £500
Savings basic rate	20%	Otherwise chargeable at basic rate
Savings higher rate	40%	Otherwise chargeable at higher rate
Savings additional rate	45%	Otherwise chargeable at additional rate
<b>Dividends rates</b>		
Dividend nil rate	0%	First £2,000
Dividend ordinary rate	7.5%	Otherwise chargeable at basic rate
Dividend upper rate	32.5%	Otherwise chargeable at higher rate
Dividend additional rate	38.1%	Otherwise chargeable at additional rate
<b>Default rates</b>		
Default basic rate	20%	
Default higher rate	40%	
Default additional rate	45%	

<b>INCOME TAX RELIEFS</b>	<b>2020/21</b>
Personal allowance <sup>(1)</sup>	£12,500
Marriage allowance <sup>(2)</sup>	£1,250

(1) The personal allowance of any individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.

(2) A spouse or civil partner who is a basic rate taxpayer or who has income of less than the personal allowance is allowed to transfer £1,250 of their personal allowance (ie 10% rounded up to the next £10) to their spouse/civil partner provided the recipient spouse is a basic rate taxpayer.

## **CAPITAL ALLOWANCES**

### **First year allowances available**

100% on new and unused zero emissions goods vehicles

100% on new and unused low emission cars ie electrically propelled or with CO<sub>2</sub> emissions of not more than 50 g/km

100% on electric vehicle charging points

### **Annual investment allowance**

£200,000 pa of expenditure incurred by any business on certain plant and machinery from 1 January 2021.

### **Writing down allowances**

18% pa in the main pool

## **COMPANY VANS, CARS AND FUEL**

### **Van scale charge**

No charge applies if there is insignificant private use

£2,792 if van has zero CO<sub>2</sub> emissions and £3,490 if it has CO<sub>2</sub> emissions

Additional £666 if private fuel provided for the van

### **Company cars - cash equivalent**

Zero emissions cars 0% of list price

## Company cars - cash equivalent

	2% of list price for cars with a battery range of >130 miles
	5% of list price for cars with a battery range of 70-129 miles
	8% of list price for cars with a battery range of 40-69 miles
Hybrid cars with emissions 1-50g/km	12% of list price for cars with a battery range of 30-39 miles
	14% of list price for cars with a battery range of <30 miles
Other cars	15% of list price for cars emitting 51-54g/km
	16% of list price for cars emitting 55-59g/km
	17% of list price for cars emitting 60-64g/km
	18% of list price for cars emitting 65-69g/km
	19% of list price for cars emitting 70-74g/km
	20% of list price for cars emitting 75-79g/km
	Increased by 1% per 5g/km over the 75g/km relevant threshold

Relevant % is reduced by 2% for cars first registered from 6 April 2020

Capped at 37% of list price (ie emissions of 160g/km or more for cars first registered before 6 April 2020 and 170g/km for cars first registered from 6 April 2020)

Diesel cars that meet the Real Driving Emissions Step 2 (RDE2) standard are treated as above, all other diesel cars have a 4% supplement added to the relevant percentage (subject to 37% cap)

### Private fuel provided for company car

£24,500 x company car %

## PAYE CODES

L	tax code with personal allowance
M	tax code with personal allowance plus claiming marriage allowance
N	tax code with personal allowance less surrendered marriage allowance
S	income taxed at Scottish rate of income tax
C	income taxed at Welsh rate of income tax
K	total allowances are less than total deductions
T	tax code includes other calculations to work the personal allowance, for example it has been reduced because estimated annual income is more than £100,000

## NATIONAL INSURANCE CONTRIBUTIONS

NIC CLASS 1 CONTRIBUTIONS	2020/21		
	Ann ual	Mon thly	We ekly
Primary threshold (PT)	£9,500	£792	£183
Secondary threshold (ST)	£8,788	£732	£169
Upper earnings limit (UEL)	£50,000	£4,167	£962

	2020/21		
<b>NIC CLASS 1 CONTRIBUTIONS</b>	<b>Ann ual</b>	<b>Mon thly</b>	<b>We ekly</b>
Apprentice upper secondary threshold (AUST) for under 25s	£50,000	£4,167	£962
Upper secondary threshold (UST) for under 21s	£50,000	£4,167	£962
Employment allowance (per year, per employer)	£4,000		
Class 1 Primary contributions on earnings between PT & UEL	12%		
Class 1 Primary contributions on earnings above UEL	2%		
Class 1 Secondary contributions on earnings above ST where employee aged 21 or over and not an apprentice under the age of 25	13.8%		
Class 1 Secondary contributions on earnings between ST & AUST for apprentices under the age of 25	0%		
Class 1 Secondary contributions on earnings above AUST for apprentices under the age of 25	13.8%		
Class 1 Secondary contributions on earnings between ST & UST for employees under the age of 21	0%		
Class 1 Secondary contributions on earnings above UST for employees under the age of 21	13.8%		
Class 1A contributions	13.8%		

	2020/21
<b>NIC CLASS 2 CONTRIBUTIONS</b>	
Normal rate	£3.05 pw
Small profits threshold	£6,475 pa
<b>NIC CLASS 4 CONTRIBUTIONS</b>	
Annual lower profits limit (LPL)	£9,500
Annual upper profits limit (UPL)	£50,000
Percentage rate between LPL & UPL	9%
Percentage rate above UPL	2%

## Syllabus area: Capital Gains

	2020/21
Annual exempt amount	£12,300
Gains falling within the remaining basic rate band	10%
Gains exceeding the basic rate band	20%
Basic rate band	£1 – £37,500

## Syllabus area: Corporation tax

**FY 2020**

Tax rate	19%
Augmented profits limit for corporation tax payment dates – large companies	£1,500,000
Augmented profits limit for corporation tax payment dates – very large companies	£20,000,000

### CAPITAL ALLOWANCES

#### First year allowances available

100% on new and unused zero emissions goods vehicles

100% on new and unused low emission cars ie electrically propelled or with CO<sub>2</sub> emissions of not more than 50 g/km

100% on electric vehicle charging points

#### Annual investment allowance

£200,000 pa of expenditure incurred by any business on certain plant and machinery from 1 January 2021.

#### Writing down allowances

18% pa in the main pool

### PAYMENT DATES

#### Payment dates for corporation tax

Corporation tax	Nine months and one day after the end of an accounting period
Corporation tax by instalments – large companies	The 14 <sup>th</sup> day of months 7, 10, 13 and 16 counted from the start of a 12-month accounting period
Corporation tax by instalments – very large companies	The 14 <sup>th</sup> day of months 3, 6, 9 and 12 counted from the start of a 12-month accounting period

## Syllabus area: Value Added Tax

### VAT

Standard rate		20%
Reduced rate		5%
Annual registration limit	From 1 April 2017	£85,000
Deregistration limit	From 1 April 2017	£83,000
VAT fraction (standard rated)		1/6

Cash accounting	£
Turnover threshold to join scheme	1,350,000
Turnover threshold to leave scheme	1,600,000
Annual accounting	
Turnover threshold to join scheme	1,350,000
Turnover threshold to leave scheme	1,600,000

<b>Flat rate scheme</b>	
Annual taxable turnover limit (excluding VAT) to join scheme	150,000
Annual total income (including VAT) to leave scheme	230,000





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